



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board

Pete T. Cenarrusa, Secretary of State

Alan G. Lance, Attorney General

J. D. Williams, State Controller

Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

Final Minutes Regular Land Board Meeting December 11, 2001

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, December 11, 2001 in Boise, Idaho. The meeting began at 9:00 a.m. Dr. Howard joined the meeting at 9:17 a.m. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

Controller J. D. Williams participated via conference call.

• **CONSENT AGENDA**

Director Wiggins provided background information on the Consent Agenda items.

A motion was made by Attorney General Lance to approve the Consent Agenda in its entirety. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 4-0, with Dr. Howard being absent for this vote.

1. Director's Report – approved

- A. Interest Rate on Departmental Transactions – November 2001
- B. Bureau of Minerals Official Transactions – October 2001
- C. Bureau of Real Estate, Land Sale Section, Official Transactions – October 2001
- D. Bureau of Real Estate, Easement Section, Official Transactions – October 2001
- E. Bureau of Range Management and Surface Leasing Official Transactions – November 2001
- F. Department of Lands Financial Summary – October 2001
- G. Timber Sale Official Transactions – November 1, 2001 through November 21, 2001
- H. Timber Sale Activity Report

2. Idaho Department of Lands/Bureau of Reclamation – Willow Bay Exchange – Request for Final Approval – Staffed by Jay Biladeau, Assistant Director, Lands, Minerals, Range – approved

DEPARTMENT RECOMMENDATION: That the board direct the department to complete the exchange with the U. S. Bureau of Reclamation.

BOARD ACTION: Approved.

3. Disclaimer of Interest – Christopher Davidson, McCall – Staffed by Steve Schuster, Deputy Attorney General, IDL – approved

DEPARTMENT RECOMMENDATION: That the board approve issuance of a disclaimer of interest for this parcel of land totaling 0.09 acres. It is also recommended that the \$600 fee be waived so that the state will not be a named party to the quiet title action and have a judgment entered against it and because the disclaimer did not require extensive field determinations by department staff.

BOARD ACTION: Approved.

4. Minutes – November 13, 2001 Regular Land Board Meeting – approved

• REGULAR AGENDA

5. Endowment Fund Investment Board Manager's Report – Presented by Charles G. Saums, Manager of Investments, Susan Tamagni, Sutro & Co. and Frank Mastrapasqua, Mastrapasqua & Associates

AUDIENCE WITH THE BOARD

Susan Tamagni, Sutro & Company, provided information to the board.

Ms. Tamagni. Ms. Tamagni summarized the aggregate components of the Endowment Fund assets and their performance, Total Fund, Fixed Income and Equity only. With the third quarter ending September 30, 2001, the EFIB Total Fund composite compared favorably with both the 70-30 blend and the total composite index. The equity only side was down 19.6% versus an equity composite of down 16.68%. Fixed income had a perfect performance for the quarter from the internal fixed income managers. Since September 30th, the total fund is up about 9.3% and the equity component of the fund is up 15.35%. Ms. Tamagni stated that the numbers have improved and she believes there will be better news to report in the next quarter's performance.

AUDIENCE WITH THE BOARD

Mr. Frank Mastrapasqua was granted an audience with the board.

Mr. Mastrapasqua. Mr. Mastrapasqua believes that the bear market ended on September 21, 2001 and that a new bull market is in the early stages of evolving. The events of September 11th changed many things in an enduring way.

In looking at the economic environment, the economy is currently in an "inventory cycle." The economy has moved from generating excess inventories to liquidating inventories. The decline has been very pronounced and has had an impact on employment, particularly in the manufacturing sector. The decline also had a major impact on corporate decisions. The current economy has a demand that is higher than supply, which is the reverse of what was happening in the early part of 2000. While this is a constructive development, it has been extremely painful from an economics perspective.

In looking ahead, most forecasters suggest that the economy will recover in the second half of 2002. Mr. Mastrapasqua feels that forecast may be too long. Based on the current equity market, he anticipates that by the first part of the year a positive GDP growth will begin. The market is the leading indicator and tends to move in advance of business activity.

Since September 11th monetary growth has moved at a record level. The system is being re-liquidified at an explosive rate. People argue that in a recession monetary policies are ineffective. They equate it to pushing on a string. Mr. Mastrapasqua stated he has been in the investment business quite a few years and has been through several recessions. During every recession the statement has been made that it appears monetary policy does not work. One of the main reasons is the long lead-time between the early stages of the monetary re-liquidification and the impact on business activity. As time passes, it will be proven once again that monetary policy is effective. The economic conditions are such that recovery should emerge based on what has already occurred in the early part of 2000.

DISCUSSION: Governor Kempthorne thanked Mr. Mastrapasqua for his efforts on behalf of the Endowment Fund.

No action was taken on this agenda item.

6. Revised "Variable Spending Policy" and Fiscal Year 2003 Distribution to Beneficiaries – Presented by Charles G. Saums, Manager of Investments and Dr. Nick Hallett, Chairman, Endowment Fund Investment Board

DEPARTMENT RECOMMENDATION: That the State Board of Land Commissioners approve the revised "Variable Spending Policy" and lower the distribution percentage from 8.5% to 7.5% beginning in fiscal year 2003.

DISCUSSION: As a point of clarification, Director Wiggins stated that Agenda Item 6 is a discussion of the Variable Spending Policy and, specifically, the distribution rate. A board memo has been provided that repeats the recommendation from earlier this year to reduce beneficiary distribution from 8.5% to 7.5%. Subsequent to that board memo, the Endowment Fund Investment Board submitted a letter, dated December 5, 2001, outlining an alternative phase-in approach to move beneficiary distribution from 8.5% to 7.5% over a two-year period.

AUDIENCE WITH THE BOARD

Dr. Nick Hallett, Chairman, Endowment Fund Investment Board, was granted an audience with the Land Board.

Dr. Hallett. The Endowment Fund Investment Board (EFIB) met on September 5, 2001 to review its spending policy. The EFIB reaffirmed its recommendation to lower the distribution percentage to 7.5%. Unfortunately, just as the EFIB entered the equity market, the worst case scenario was experienced. The market downturn that occurred was unfortunate because it happened before the EFIB had the opportunity to develop an earnings reserve.

The EFIB has had a historic relationship, an inverse relationship, with the timber and equity markets. For some reason that relationship has changed and that change has radically modified the model used as the base for the 8.5% spending policy. The EFIB's primary responsibility is to protect the corpus.

The EFIB also wants to maximize the long-term benefits for beneficiaries. While the spending policy does do that, lowering the spending policy to 7.5% ultimately is in the Fund's best interest. Although we think in terms of future generations, we all live in the short term so the EFIB considered phasing in the reduction, as outlined in the December 5, 2001 letter. The phase-in would provide some budget relief this year.

DISCUSSION: Governor Kempthorne asked if the proposed phase-in reduction would bring the earnings reserve up. Dr. Hallett stated it would. Governor Kempthorne asked if the EFIB saw any future need to continue to reduce the distribution below the 7.5% level. Dr. Hallett stated he hoped that would not be necessary. He believes the big factor is the relationship of timber revenues to the equity market and no one knows the answer at this time. The EFIB will monitor the funds and believes that the 7.5% will enable the Earnings Reserve to build in a reasonable period of time. Governor Kempthorne stated he appreciates the fact that the EFIB has lessened the initial impact by using the phased-in approach spread over two years.

Dr. Howard asked if Dr. Hallett could be more specific about the effect of the phase-in, as opposed to the initial proposed drop in distribution. Dr. Hallett stated the EFIB is confident that the long-term effect of the phase-in will be negligible.

Governor Kempthorne commented that the impact of a full one percent reduction would be \$10 million. That \$10 million would be split, with \$7 million being reduced from the K through 12 Public Schools budget and \$3 million being reduced from the Higher Education budget. By using the phase-in approach, the impact would be cut in half so the reduction would be \$3.5 million to Public Schools, as opposed to \$7 million. Dr. Hallett stated that is correct. While that is a rather significant impact short term in developing the budget for this year, it has very little impact when you look at the fund reserve and the corpus for the Endowment Fund.

Controller Williams commented the phased-in approach is a good idea. He is glad the Land Board waited for a re-analysis by the EFIB before making a motion on the reduction.

BOARD ACTION: A motion was made by Attorney General Lance to modify the department's recommendation to reflect the phase-in, as recommended in the Endowment Fund Investment Board's letter of December 5, 2001. The letter reads in part "After reexamining the fund balances and considering the impact upon the earnings reserve fund and upon the beneficiaries, the Endowment Fund Investment Board reaffirmed its goal to move to a 7.5% distribution to beneficiaries in order to achieve its earnings reserve goals. However, if the Board of Land Commissioners desires, this goal could be attained through a two-step process: 8% the first year (fiscal year 2003) and 7.5% for succeeding years. The result of this phase-in

approach will not significantly affect the time needed to reach the goal of a 50% fund reserve." Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

At 9:35 a.m., a motion was made by Attorney General Lance to resolve into Executive Session. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

- **EXECUTIVE SESSION**

A. To Consider Records that are Exempt from Disclosure as Provided in Chapter 3, Title 9, Idaho Code [Idaho Code § 67-2345(1)(d)]

B. To Consider and Advise Its Legal Representatives in Pending Litigation or Where There is a General Public Awareness of Probable Litigation [Idaho Code § 67-2345(1)(f)]

C. To Consider Personnel Matters [Idaho Code § 67-2345(1)(b)]

At 11:00 a.m., a motion was made by Attorney General Lance to resolve back into Regular Session. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0. No actions were taken by the board during the Executive Session.

There being no further business to come before the board, the meeting adjourned at 11:00 a.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ Dirk Kempthorne

President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Pete T. Cenarrusa

Pete T. Cenarrusa
Secretary of State

/s/ Winston A Wiggins

Winston A Wiggins
Director
Idaho Department of Lands

The above-listed final minutes were approved by the State Board of Land Commissioners at the February 12, 2002 regular Land Board meeting.